

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1355-04
Bill No.: SCS for HCS for HB 811
Subject: Revenue, Department of; Taxation and Revenue - Income
Type: Original
Date: May 5, 2015

Bill Summary: This proposal would change several provisions regarding the Department of Revenue and taxation.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|--|-------------------------------------|-------------------------------------|-------------------------------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| General Revenue | (Could exceed \$385,225) | (Could exceed \$105,013) | (Could exceed \$105,499) |
| Total Estimated Net Effect on General Revenue | (Could exceed \$385,225) | (Could exceed \$105,013) | (Could exceed \$105,499) |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 11 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|--|--------------|--------------|--------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| General Revenue | 1 FTE | 1 FTE | 1 FTE |
| | | | |
| Total Estimated Net Effect on FTE | 1 FTE | 1 FTE | 1 FTE |

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|-------------------------------------|------------|------------|------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| Local Government | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Section 32.069, RSMo. - Interest on Refunds:

Officials from the **Department of Revenue (DOR)** noted the legislation would require the payment of interest on any overpayment of taxes if not refunded within 45 days. If the overpayment was not refunded within 45 days, interest would accrue from the date the taxpayer filed the return or the date the taxpayer filed for a credit or refund.

Officials from the **Office of Administration - Division of Budget and Planning** stated the proposal would require DOR to remit refunds within 45 days. If this deadline is not met, interest would be paid from the date the return or claim is filed. In addition, it would require DOR to deposit all payments within 2 business days.

Section 143.801, RSMo. - Credits and Refunds:

Changes to this provision would allow a taxpayer to claim a credit or refund for overpayment of income taxes after the statute of limitations for making a claim has expired, if the taxpayer files an amended federal return or if the federal Internal Revenue Service changes the taxpayer's federal return after such time has expired.

Officials from the **Office of Administration - Division of Budget and Planning** assume this provision could reduce Total State Revenues and General Revenue but would not have an impact on the calculation of excess revenue under Section 18(e) of the state constitution.

Officials from the **Department of Revenue (DOR)** assume this provision could result in additional refunds.

Fiscal impact

DOR officials assumed the proposed language could result in a reduction to Total State Revenue but did not provide an estimate of the number or amount of additional refunds which could be allowed.

ASSUMPTION (continued)

In response to a previous version of this proposal, **DOR** officials stated they anticipated some additional refunds but assumed the number of refunds which had been previously disallowed due to the statute of limitations but would be allowed after the taxpayer filed an amended federal return would be minimal.

Oversight notes the proposal would require DOR to create a process to allow a taxpayer to claim refunds and credits which can not be claimed under current statute of limitations provisions. That process would become available if the taxpayer files an amended federal return, or the Internal Revenue Service changes the taxpayer's federal return and the changes would make the taxpayer eligible for a credit or refund.

Administrative Impact

DOR officials assume Personal Tax would require two additional Revenue Processing Technicians I for returns processed and error correction, and Corporate Tax would require one additional Revenue Processing Technician I for correspondence, and programming time to develop and install new notices and notice messages. In addition, Collections & Tax Assistance (CATA) would require two additional Tax Collection Technicians I for calls to the delinquent and non-delinquent call centers. These personnel would require CARES equipment and licenses. Finally, Withholding Tax would require one additional Revenue Processing Technician I for correspondence.

Oversight notes that DOR officials have stated they expected a minimal number of additional refunds would be allowed by this provision and assumes DOR could implement this proposal with existing resources. If an unanticipated additional workload is created by this proposal or if multiple proposals are implemented which increase the DOR workload, additional resources could be requested through the budget process.

Section 143.811, RSMo. - Time Limit for Refunds:

DOR officials noted the legislation would reduce the time allowed to refund tax overpayments without paying interest from 90 to 45 days. Interest on unpaid refunds would accrue from the date the return was filed.

ASSUMPTION (continued)

Fiscal impact

Based on approximately 318,000 overpayments issued during calendar year 2014 that took longer than 45 days to issue, DOR officials estimated that interest in the amount of \$60,000 would have been paid if the 45 day limit had been in place. DOR officials also stated the current interest rate on overpayments is 0.6 percent; because that rate may vary, the potential impact could increase.

Oversight assumes the additional interest cost would be less than the DOR estimate of \$60,000. Oversight notes that DOR officials did not indicate a fiscal impact for the requirement to deposit all receipts within two days. Oversight assumes the prompt deposit requirement could result in additional interest revenue for the state but we do not have any way to estimate that additional impact, and will include unknown additional revenue in this fiscal note.

Administrative Impact

DOR officials assume the Department would require programming changes to various systems in order to implement this legislation.

To prevent refunds from being issued after 45 days, DOR officials assume Personal Tax would require an additional ten (10) Revenue Processing Technicians I (Range 10, Step L), Collections and Tax Assistance would require two (2) Tax Collection Technicians I (Range 10, Step L), one for every additional 15,000 contacts annually on the delinquent tax line and one for every additional 15,000 on the non-delinquent tax line, and each technician would require CARES equipment and license. Cashiering would require three additional part-time employees and 1 part-time supervisor, additional TMS License Cost, and additional part-time employees for other identified peak workloads.

Section 136.110, RSMo. - Deposit Processing

DOR officials noted this provision would require the Department to deposit payments received within two business days of receipt.

Oversight notes that DOR officials did not provide separate information regarding the cost to implement this provision.

ASSUMPTION (continued)

Section 143.1028, RSMo. - Refund deposit to Missouri Higher Education Savings Program accounts:

This provision would, beginning January 1, 2016, allow individuals entitled to a tax refund to designate all or part of the refund to be direct deposited into a financial institution managing the Missouri Higher Education Savings Program. The provisions would require a deposit of at least \$25 in the tax year refunded.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** stated there would be no impact to Total State Revenues or the calculation for 18(e). To the extent this provision could result in additional taxpayer contributions to the MOST Program, the additional tax deductions could indirectly reduce revenues.

Oversight notes that a direct deposit into a MOST account from a taxpayer's refund would be a deductible contribution in the following year for some taxpayers; however the extent to which those deposits would increase total deposits for the program and the extent to which those additional deposits would result in additional income tax deductions is unknown and would be considered an indirect impact from this proposal. Oversight will not include a fiscal impact for additional deductions in this fiscal note.

Officials from the **Department of Revenue (DOR)** assume the Department would require form and programming changes to implement this provision.

The Department of Revenue response included an estimate of the total cost to implement this proposal including a total of 21 additional employees and overtime and additional temporary hours. The total, including the additional employees and the related benefits, equipment, and expense totaled \$913,062 for FY 2016, \$916,837 for FY 2017, and \$926,366 for FY 2018.

Oversight assumes these provisions would not result in any additional returns, receipts, refunds, or other transactions; rather, it would require more timely processing of returns, payments, and refunds by the Department of Revenue. No additional full time employees would appear to be required to process returns more promptly, and Oversight will include only the DOR cost estimate for overtime, temporary classified employees, and temporary tax employees in our estimate of fiscal impact for this proposal. Oversight notes this proposal would be effective beginning on August 28, 2015 (FY 2016) and assumes these costs would apply to the tax processing season beginning in January 2016 (FY 2016).

ASSUMPTION (continued)

Oversight also assumes the DOR estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment could be reduced by roughly \$6,000 per new employee.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Oversight assumes a limited number of additional employees could be accommodated in existing office space. Finally, because the temporary classified employee would be benefit eligible, Oversight will indicate one additional FTE for this proposal.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$181,781 based on 2,424 hours of programming at the current state contract rate for IT services, to make changes to DOR computer systems.

Oversight will include the DOR estimate of IT cost in this fiscal note.

Bill as a whole responses

Officials from the **Department of Higher Education** and the **Office of the State Treasurer** assume this proposal would not have a fiscal impact to their organizations.

Officials from the **Department of Economic Development** and the **Department of Insurance, Financial Institutions, and Professional Registration** assumed a previous version of this proposal would not have a a fiscal impact to their organizations.

ASSUMPTION (continued)

In response to a previous version of this proposal, officials from the **Office of the Secretary of State (SOS)** noted that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

| <u>FISCAL IMPACT - State Government</u> | FY 2016 (10 Mo.) | FY 2017 | FY 2018 |
|--|--|--|--|
| GENERAL REVENUE FUND | | | |
| <u>Additional revenue</u> - Interest from prompt deposit requirement §136.110 | Unknown | Unknown | Unknown |
| <u>Cost</u> - DOR | | | |
| Salaries | (\$33,523) | (\$33,858) | (\$34,197) |
| Benefits | (\$8,629) | (\$8,715) | (\$8,802) |
| Equipment and expense | (\$26,205) | (\$2,440) | (\$2,500) |
| IT cost | <u>(\$75,087)</u> | <u>\$0</u> | <u>\$0</u> |
| | (\$143,444) | (\$45,013) | (\$45,499) |
| FTE change - DOR | 1 FTE | 1 FTE | 1 FTE |
| <u>Cost</u> - Interest on Refunds §§32.069 & 143.811 | (Less than <u>\$60,000</u>) | (Less than <u>\$60,000</u>) | (Less than <u>\$60,000</u>) |
| <u>Cost</u> - Department of Revenue IT cost §143.1028 | (\$181,781) | \$0 | \$0 |
| <u>Revenue reduction</u> Refunds Section 143.801 | (Unknown) | (Unknown) | (Unknown) |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | (Could exceed <u>\$385,225</u>) | (Could exceed <u>\$105,013</u>) | (Could exceed <u>\$105,499</u>) |
| Estimated Net FTE Effect on General Revenue Fund | 1 FTE | 1 FTE | 1 FTE |
| <u>FISCAL IMPACT - Local Government</u> | FY 2016 (10 Mo.) | FY 2017 | FY 2018 |
| | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

FISCAL IMPACT - Small Business

This proposal could have an impact to small businesses which have a refund that is not paid within 45 days. In addition, a small business could receive a tax credit or refund which was previously unavailable due to the statute of limitations, if this proposal is implemented.

FISCAL DESCRIPTION

This proposal would require the Department of Revenue to pay interest on refunds not paid after 45 days from the date the return was filed, and would require the Department of Revenue to deposit receipts within two business days.

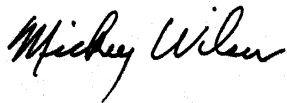
The proposal would also allow a taxpayer to claim a credit or refund of an income tax overpayment which was otherwise disallowed due to the statute of limitations, if the taxpayer files an amended federal return or the federal Internal Revenue Services changes the taxpayer's federal return and the changes would make the taxpayer eligible for a tax refund or tax credit.

This proposal would allow a taxpayer with a refund to designate part or all of that refund for direct deposit into a Missouri Higher Education Savings Plan account.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Economic Development
Department of Insurance, Financial Institutions, and
 Professional Registration
Department of Revenue



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May 5, 2015

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